

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 ISO-00 AID-20 CEA-02 CIAE-00

COME-00 EB-11 FRB-02 INR-10 IO-14 NEA-14 NSAE-00

RSC-01 OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 NSC-07 SS-20 STR-08 L-03 H-03 PA-04 PRS-01

USIA-15 XMB-07 AGR-20 INT-08 FEA-02 DRC-01 /237 W

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R 091038Z MAY 74

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC 3536

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

USMISSION OECD PARIS

USUN NEW YORK 866

UNCLAS THE HAGUE 2333

MANILA FOR USADB

E.O. 11652: N/A

TAGS: EAID, ID

SUBJECT: IGGI-16 -- PRESS RELEASE

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PRESS RELEASE ISSUED EVENING OF MAY 8 FOLLOWS:

ON 7 AND 8 MAY 1974 THE INTER-GOVERNMENTAL GROUP ON INDONESIA CONVENED IN AMSTERDAM TO CONSIDER INDONESIA'S CURRENT ECONOMIC SITUATION AND DEVELOPMENT PROSPECTS AND TO REVIEW THE FOREIGN ASSISTANCE COMMITMENTS FOR THE FISCAL YEAR 1974/75.

THE FOLLOWING COUNTRIES WERE REPRESENTED: AUSTRALIA, AUSTRIA, BELGIUM, CANADA, FRANCE, THE FEDERAL REPUBLIC OF GERMANY, INDONESIA, ITALY, JAPAN, THE NETHERLANDS, NEW ZEALAND, SWITZERLAND, THE UNITED KINGDOM AND THE UNITED STATES. AUSTRIA, PREVIOUSLY AN OBSERVER, ATTENDED FOR THE FIRST TIME AS A FULL MEMBER OF THE GROUP. REPRESENTATIVES OF THE INTERNATIONAL MONETARY FUND, THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, THE ASIAN DEVELOPMENT BANK AND THE UNITED NATIONS DEVELOPMENT PROGRAMME AND OBSERVERS FROM DENMARK, NORWAY, THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT AND THE EUROPEAN ECONOMIC COMMUNITY ALSO ATTENDED. THE PRESENCE OF REPRESENTATIVES OF THE EUROPEAN ECONOMIC COMMUNITY AT THIS MEETING, THE FIRST TO BE ATTENDED BY SUCH REPRESENTATIVES, WAS WELCOMED.

THE DELEGATION OF THE REPUBLIC OF INDONESIA REPORTED ON MAJOR DEVELOPMENTS IN THE INDONESIAN ECONOMY SINCE THE DECEMBER 1973 MEETING OF THE GROUP. THERE HAD BEEN A CONTINUING INCREASE IN THE GENERAL PRICE LEVEL, OWING BOTH TO THE MOVEMENTS IN INTERNATIONAL PRICES AND TO DOMESTIC DEMAND PRESSURES. MEASURES HAD RECENTLY BEEN TAKEN TO LIMIT MONETARY EXPANSION BY RESTRAINING THE INCREASE IN BANK CREDIT, BY MAKING RECOURSE TO FOREIGN CREDITS FOR OPERATING CAPITAL MORE COSTLY AND BY MAKING RESERVE REQUIREMENTS MORE RESTRICTIVE. HIGHER INTEREST RATES WERE INTRODUCED ON TIME DEPOSITS AND BANK LOANS. FOREIGN BORROWINGS BY STATE ENTERPRISE OF LESS THAN 15 YEARS MATURITY WOULD CONTINUE TO BE REGULATED. THE GOVERNMENT WOULD CONTINUE PROVIDING SUBSIDIES ON CERTAIN ESSENTIAL COMMODITIES, E.G. RICE AND FERTILIZER. STEPS WERE ALSO TAKEN TO SECURE ADEQUATE STOCKS OF CERTAIN ESSENTIAL COMMODITIES. THE BUDGET AND THE BALANCE OF PAYMENTS PROSPECTS FOR 1974/75 HAD FURTHER IMPROVED MAINLY ON ACCOUNT

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OF THE FAVOURABLE WORLD MARKET PRICES OF CRUDE OIL.

THE REPRESENTATIVES OF THE IBRD AND IMF IN PRESENTING THEIR REPORTS DREW ATTENTION TO THE LARGE INCREASES IN BUDGET REVENUES AND EXPORT EARNING ARISING FROM RECENT INCREASES IN OIL PRICES AND FROM REVISIONS IN THE INCOME SHARING ARRANGEMENTS WITH FOREIGN OIL COMPANIES. THESE INCREASES HAVE ENABLED THE GOVERNMENT TO BUDGET FOR MARKEDLY HIGHER EXPENDITURES IN

THE ECONOMIC AND SOCIAL FIELDS. NOTWITHSTANDING THESE DEVELOPMENTS IN THE OIL SECTOR THE REPRESENTATIVES OF THE IBRD AND IMF NOTED THAT THE FUNDAMENTAL ECONOMIC POSITION AND PROBLEMS OF INDONESIA REMAINED THOSE OF A LOW INCOME DEVELOPING COUNTRY SEEKING TO ENHANCE THE STANDARDS OF LIVING FOR A LARGE POPULATION.

THE GROUP CONCLUDED THAT ECONOMIC DEVELOPMENTS AND PROSPECTS HAD IMPROVED DECIDEDLY SINCE ITS LAST REVIEW OF THE SITUATION. IT WELCOMED THE STEPS WHICH HAD BEEN TAKEN BY THE INDONESIAN AUTHORITIES TO DEAL WITH THE PROBLEM OF INFLATION, CAUTIONING AT THE SAME TIME THAT SUBSIDIES BE CONTINUOUSLY REVIEWED AND SET AT APPROPRIATE LEVELS. IT NOTED THAT THE INCREASES IN REALIZED PRICES OF INDONESIA'S OIL EXPORTS THAT BECAME EFFECTIVE EARLY IN 1974 AND THE SUBSEQUENT REVISIONS IN INCOME SHARING ARRANGEMENTS WITH FOREIGN OIL COMPANIES HAD RESULTED IN A LARGE INCREASE IN ESTIMATED GOVERNMENT REVENUES FOR 1974/75; THE BALANCE OF PAYMENTS PROSPECTS FOR THE SAME PERIOD ALSO APPEARED TO BE SUBSTANTIALLY MORE FAVOURABLE THAN ANTICIPATED IN DECEMBER. THESE DEVELOPMENTS WOULD PROVIDE INDONESIA WITH A UNIQUE OPPORTUNITY TO STEP UP THE RATE OF DEVELOPMENT WITH THE AIM OF EVENTUAL SELF RELIANCE IN FINANCIAL RESOURCES. THE CHAIRMAN OBSERVED THAT IN VIEW OF THE ENHANCED INTERNATIONAL INTEREST IN PETROLEUM, LIQUEFIED NATURAL GAS, AND OTHER FORMS OF ENERGY SOURCES, THE SPECIAL SECTION ON THE INDONESIAN OIL INDUSTRY PROVIDED IN THE FUND REPORT FOR THE PRESENT MEETING WAS ESPECIALLY TIMELY.

IT WAS THE VIEW OF THE GROUP THAT 1974/75 SHOULD BE VIEWED AS A YEAR OF TRANSITION IN INDONESIA'S DEVELOPMENT EFFORTS. THE GROUP CONCURRED WITH THE VIEWS EXPRESSED BY THE WORLD BANK AND FUND THAT THE FUNDAMENTAL ECONOMIC

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POSITION AND PROBLEMS OF INDONESIA REMAINED THOSE OF A LOW INCOME DEVELOPING COUNTRY SEEKING TO ENHANCE THE STANDARDS OF LIVING FOR A LARGE POPULATION. THE NEED FOR PROGRAMME AID WAS LESS URGENT THAN IN PREVIOUS YEARS BUT CONTINUITY IN PLANNING AND FINANCING FOR LONGER TERM INVESTMENT REQUIREMENTS WAS STILL ESSENTIAL. GREATER POSSIBILITIES AND NEEDS FOR PROJECT FINANCING WERE EVIDENT AS PREVIOUS CONSTRAINTS ON PROJECT IMPLEMENTATION HAD BEEN REDUCED. IT WAS THE CONSENSUS OF THE GROUP, AFTER REVIEWING THE ECONOMIC SITUATION AND PROSPECTS, THAT THE TOTAL AID REQUIREMENT OF \$850 MILLION APPEARED APPROPRIATE. SEVERAL DELEGATIONS NOTED, HOWEVER, THAT THE GREATER EMPHASIS ON PROJECT ASSISTANCE WOULD REQUIRE IMPROVED PROJECT IMPLEMENTATION PROCEDURE.

THE INDONESIAN DELEGATION NOTED THAT CONCERN HAD BEEN EXPRESSED ABOUT PROJECT PREPARATION AND IMPLEMENTATION DURING EARLIER MEETING OF THE GROUP, ONCLUDING LAST DECEMBER. MEASURES HAD BEEN TAKEN FOR 1974/75 TO PERMIT GREATER FLEXIBILITY IN DEVELOPMENT BUDGET IMPLEMENTATION; CERTAIN CHANGES IN FINANCIAL ALLOCATIONS FOR PROJECTS COULD BE APPROVED AT THE REGIONAL LEVEL. THESE AND OTHER MEASURES, INCLUDING STEPS TO ACCELERATE CLEARANCE OF GOODS THROUGH CUSTOMS, SHOULD FACILITATE IMPLEMENTATION OF PROJECT AID AND DEVELOPMENT EXPENDITURES.

THE GROUP ACCEPTED THE STATEMENT BY THE INDONESIAN DELEGATION THAT LOANS ON SOMEWHAT LESS FAVORABLE TERMS THAN THE SOFT TERMS WHICH HAD HITHERTO CHARACTERIZED IGGI AID, COULD ALSO BE CONSIDERED APPROPRIATE. SOME MEMBERS INDICATED THAT IN ADDITION TO PROVIDING LAONS ON THE SAME SOFT TERMS AS PREVIOUSLY, THEY WERE ALSO PLANNING TO OFFER LOANS ON TERMS THAT WERE HARDER THAN IN THE PAST BUT WHICH WERE STILL CONCESSIONAL IN COMPARISON WITH COMMERCIAL LOANS. THE INDONESIAN DELEGATION EMPHASIZED THE IMPORTANCE OF AVOIDING TOO RAPID A SHIFT IN TERMS OF BORROWING AND THE NEED TO MAINTAIN DISCIPLINE IN BORROWING AND THE QUALITY OF PROJECT PREPARATION. THE GOUP HEARD STATEMENTS BY THE DELEGATIONS OF PARTICIPATING GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS INDICATING OR REITERATING THEIR COMMITMENTS OR INTENTIONS WITH REGARD TO FOREIGN ASSISTANCE FOR THE CURRENT FISCAL YEAR. UNCLASSIFIED

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ON THE BASIS OF THESE STATEMENTS THE GROUP WAS ABLE TO OBSERVE THAT INDONESIA'S AID REQUIREMENT WAS LIKELY TO BE MET.

THE INDONESIAN DELEGATION EXPLAINED THE MAIN FEATURES OF THE DEVELOPMENT STRATEGY ENVISAGED FOR THE SECOND FIVE-YEAR PLAN WHICH STARTED IN APRIL 1974. WHILE PRESENT DEVELOPMENT POLICIES WOULD BE CONTINUED AND STRENGTHENED, GREATER EMPHASIS WOULD BE PLACED ON INCREASED EMPLOYMENT, ON THE BROADENING OF THE BENEFITS OF ECONOMIC GROWTH AND ON REGIONAL DEVELOPMENT. HIGH PRIORITY WOULD BE ACCOR
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, PETROLEUM, ECONOMIC CONDITIONS, INTERGOVERNMENTAL COOPERATION, FOREIGN ASSISTANCE, FINANCIAL CONTRIBUTIONS, MEETINGS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 09 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974THEHA02333
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740113-0343
From: THE HAGUE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740559/aaaacbbv.tel
Line Count: 205
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: WorrelSW
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 31 OCT 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <31 OCT 2002 by MorefiRH>; APPROVED <03 JAN 2003 by WorrelSW>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IGGI-16 -- PRESS RELEASE UNCLASSIFIED
TAGS: EAID, ID
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005